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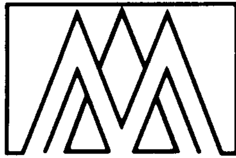

BOOK REVIEWS

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Book Review Essay: Taking Stock of Stakeholder Management

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Kofi Annan is looking for help. On June 1, 2001, he went to the U.S. Chamber of Commerce to ask America's business leaders for their help in the international fight against AIDS (Annan, 2001). Calling it "a global problem of catastrophic proportions," Annan observed the scale and scope of the problem; spoke about how it will increase business costs and shrink markets; and went on to talk about how the disease will create poverty, exacerbate international wealth inequalities, and threaten both regional and global security. Of course, he asked U.S. firms to establish AIDS programs in their workforce, but he asked for much more. He called on U.S. business leaders to be advocates for AIDS awareness and treatment programs in their communities and among their executive peer groups; he called on firms to use their marketing and logistics capabilities to fight AIDS in Africa, China, India, and Russia; he asked U.S. firms to partner with AIDS service organizations and community groups, to give them much needed human resource, strategy, and public affairs capabilities; and, finally, he asked for cash contributions to a Global AIDS and Health Fund.

Kofi Annan is not alone in asking corporations for help. As arguably the most powerful actors on the world's stage today, firms are being asked to enter the worlds of education, nutrition, and health care to combat illiteracy, starvation, and diseases of all kinds. Firms are even being asked to contribute to societies' basic infrastructure needs. Many countries would as eagerly embrace corporations' donated roads, sanitation facilities, and power grids as they would new schools and hospitals.

These requests put business leaders in a bind. Powerful as their firms are, leaders are being asked to make such direct contributions to society when they are no doubt feeling overwhelmed and constrained. The globalization of a firm's factor and product markets is no longer news (Parker, 1996); such globalization combines with domestic deregulation to exert punishing competitive pressures on firms (Jensen, 1993). The concomitant advent of investor capitalism forces managers to keep an eye on financial returns as never before (Useem, 1996). Perhaps it is no surprise to see some firms cheat and steal in such difficult times, but recent corporate scandals place even more pressure on firms to be strictly accountable to their publics (Gordon, 2002). What to do? How should business leaders respond to Kofi Annan's plea for help? The U.N. Secretary General pointed out that more than 24 million children have already died from AIDS. Recoiling from such a statistic, should senior executives commit their firms to fight the AIDS virus, or should they demur and focus instead on meeting their exacting and relentless competitive challenges? Either way, the stakes are huge.

If there ever was a time that business leaders might turn to organization and management scholars for advice and counsel, this is it. On the horns of a dilemma, these leaders might reasonably turn to academia for both decision insight and postdecision legitimation. No matter their decision, it will surely evoke criticism. We can all imagine the stigma that follows the rebuff of a sick baby, but we know too that these leaders are well aware of Milton Friedman's famous dictum: "The social responsibility of business is to increase its profits" (Friedman, 1970). They may help these children at their peril. Business leaders need our help.

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The good news is that organization and management scholars have been thinking about just these kinds of issues for twenty years or more. We have seen a persistent interest in stakeholder theory since the publication of R. Edward Freeman's *Strategic Management: A Stakeholder Approach* in 1984. Stakeholder theory holds the promise of helping us determine how to commingle a firm's economic objectives with its social aspirations (and even responsibilities). Two recent books offer us state-of-the-art thinking in this area. James E. Post and Lee E. Preston, two icons in the area of business and society research, teamed up with a European colleague, Sybille Sachs, to write *Redefining the Corporation: Stakeholder Management and Organizational Wealth* (2002). Robert Phillips, Freeman's student, wrote *Stakeholder Theory and Organizational Ethics* (2003a) a year later. Together, the three books provide a wonderful introduction to stakeholder theory and its development; they may also embody our best thinking about how firms are to respond to calls for help from the likes of Kofi Annan. My goal here is to review the three books and, in so doing, take stock of the theory's ability to provide counsel to our business leaders when they are asked to make investments like these.

STRATEGIC MANAGEMENT: A STAKEHOLDER APPROACH (1984)

Edward Freeman's 1984 text is clearly a classic in our field. Notwithstanding the fact that Freeman traces the idea of a stakeholder back to 1963 (p. 31), and even to Adam Smith (p. 8), ask any member of the Academy of Management about the origins of the stakeholder construct and I wager that 99 out of 100 colleagues will point you to this book. Phillips calls it a "groundbreaking book" (2003a: 164), saying that it "took the stakeholder idea to a higher level of theoretical sophistication" (2003a: 66). Indeed, a citation count in July 2004 revealed that it had been cited 485 times. That is approximately eight times the average number of citations a typical 1984 *Academy of Management Journal* paper has received (Walsh, Weber, & Margolis, 2003). The problem with "classic" writings is that they may be cited more than they are read (Mizruchi & Fein, 1999). Even worse, they may be known for something the author never intended. The Freeman (1984) book is a classic book that is also a classic case of becoming something that it really is not.

Freeman is well aware of his predicament. Ten years after the book's publication, he wrote that

> the temptation has been for a long time to depict the stakeholder concept as a kind of rallying cry against the stockholder theory. Armed with stakeholder maps on our shields and banners, we have marched forth to browbeat the infidels, mostly economists and finance theorists, . . . and show them that stakeholder theory is "better" than stockholder theory (Freeman, 1994: 413).

He knows full well that his book was not a rallying cry to browbeat infidel economists. I imagine that he is also well aware that he slipped a controversial point or two into the book—points that would empower such combatants. Let's take a moment to review his message and then consider the points that launched its social reconstruction. Carefully read or not, his book may be better known for posing a question than it is for the substance of his argument. We can also look at the book for ideas about how to respond to Kofi Annan's call for help.

Consider when the book was written. The early 1980s were an unsettled and unsettling time. The Reagan administration promoted deregulation and, in so doing, fueled a merger and acquisition wave. The globalization of a firm's factor and product markets was underway, but its implications were not yet clear. Firms were facing a new and very uncertain business environment, as well as bracing for competition at home and abroad.

This is the reality that orients Freeman's book. Indeed, his first and motivating chapter is entitled "Managing in Turbulent Times." Here are the challenges that prompted the need for a stakeholder approach to management: takeovers (p. 9); Japan's passion for quality (p. 9); younger employees with different work values (p. 10); OPEC and the politicization of global supply chains (p. 11); government influence of all kinds (p. 14); foreign competition (p. 17); and the scrutiny of firms by consumer advocates (p. 18), environmentalists (p. 20), special interest groups (p. 21), and the media (p. 22). He opens the book with these examples and then closes it by reiterating the central challenge. Freeman's very last paragraph begins with these words:

> The business environment of the 1980s and beyond is complex, to say the least. If the corpora-

> tion is to successfully meet the challenges posed by this environment, it must begin to adopt integrative strategic management processes which focus the attention of management externally as a matter of routine (p. 249).

Strategic Management: A Stakeholder Approach is all about waking managers to this new reality—providing them with a new "conceptual system" (p. 8) to make sense of the world—and to impress on them the need for a "'radical externalism,' whereby every manager's work is either for the benefit of an external stakeholder group or as a conduit to an external stakeholder group" (p. 233). This radical externalism gives rise to a definition of a stakeholder that is marked by a kind of jittery vigilance: "a stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the activities of an organization" (p. 46).

In many ways, the book is a practice-based, managerial companion to Pfeffer and Salancik's (1978) *The External Control of Organizations: A Resource Dependence Perspective*. It is a hands-on, user-friendly, and practical book that tells managers how to appraise the external environment in ways that the Pfeffer and Salancik book did not. Pfeffer and Salancik were trying to develop a general theory of organizations; Freeman was trying to foster "an expanded sense of leadership" (p. 245). He underscores that "the resulting organization is a 'stakeholder-serving' organization" (p. 233), but make no mistake, he is not interested in serving stakeholders to satisfy their needs in any altruistic sense. Consistent with the resource dependence point of view, Freeman is calling on leaders to serve their stakeholders, because these stakeholders hold the key to the firm's survival. The firm depends on them. Four quotes from different sections of the book underscore this key point:

- "We must not leave out any group or individual who can affect or is affected by the organization's purpose, because that group may prevent our accomplishments" (p. 52).
- "The more we can begin to think in terms of how to better serve stakeholders, the more likely we will be to survive and prosper over time" (p. 80).
- "We need to worry about enterprise level strategy for the simple fact that corporate survival depends in part on their [sic] being some 'fit' between values of the corporation and its managers, the expectations of stakeholders in the firm and the societal issues which will determine the ability of the firm to sell it products" (p. 107).
- "Regardless of the underlying reasons, organizations which ignore their stakeholders are in for big trouble, sooner or later" (p. 165).

Freeman would like to see the firm meet the various stakeholders' needs in a "win-win" fashion (pp. 74, 170), but if that is not possible, it is clear whose interests predominate. In his words, the firm will "give in" to a stakeholder group only if that group is crucial to the firm's survival: "if cooperative potential of a particular stakeholder is truly vital to the survival of the firm, then 'giving in' has to be considered" (p. 149).

I suggested that we might find an answer to Kofi Annan's request in this book. My sense is that Freeman would tell the Secretary General to look elsewhere for the investment he needs. His book tells me that firms who step up to fight AIDS are, at a minimum, unproductively distracted and, at worst, wasting their valuable resources. Admittedly, this kind of direct request did not orient the book. We need to look between the lines to find an answer to Annan's appeal. Let me make two attempts here.

First, consider Freeman's attraction to voluntarism (pp. 74, 211–212); he is not interested in having the government regulate stakeholder relations. He notes that an attempt to regulate a firm's "externalities" will invite social criticism and ultimately result in "less productive work" (p. 66). This distinction makes it clear that he is interested in helping executives quietly meet their external business challenges and not create an organization that is somehow more directly engaged with social life. To do so might diminish the firm's productive capabilities.

Second, note his language in "an issue scorecard must address real strategic issues and not so-called 'social responsibility' issues" (p. 178). Indeed, later he discusses the difference between what he calls "important" and "nonimportant" stakeholders (p. 190). Mindful of "the snail darter fallacy" (a reference to the 1978–1979 controversy over an endangered minnow that environmentalists used as a weapon in their attempt to halt construction of the Tellico dam in Tennessee), he argues that the corporation nevertheless "must narrow down its list of stakeholders. It must leave those out who are too small and too insignificant to worry about to others"

(p. 190). I could be wrong, but my reading suggests that he would have counseled firms to keep a safe distance from global AIDS initiatives.

Many readers may be surprised to learn that the father of stakeholder theory draws such a clear distinction between "real" strategic issues and social responsibility issues and between the important and the small, insignificant, nonimportant stakeholders. Readers may cheer his recommendation to create "stakeholder managers" (p. 233) but then chafe when he talks about how they are to be used in a firm: "Stakeholder experts would ideally operate as a profit center within the corporation, selling their services to SBU managers" (p. 236). Of course, the idea of a stakeholder manager running a profit center is perfectly consistent with the business orientation of the book, but the idea of a stakeholder manager justifying his or her existence on the basis of a positive cash flow is not at all consistent with how so many have reconstructed this book over the past twenty years. This intensely business-first, manager-friendly, strategic management text has somehow left a generation of scholars with the idea that Freeman offered a stakeholder theory to compete with what might be called stockholder theory. Where did this idea come from? The answer can be found in only two places in the book.

I read the book carefully for any hint of an attack on the neoclassical theory of the firm or any trace of a seemingly altruistic, stakeholder-serving orientation. I found two. The "attack," such as it is, comes on page 109. Here Freeman mentions the "original pathology in the stockholder strategy." He raises this point in a discussion of deception, noting that it is possible to exploit the least well off under the guise of making them better off. The stockholder strategy can enable such deception. It is a point well taken. Of course, this very same critique has been leveled at a stakeholder-serving view of corporate governance—it too can provide a legitimate cover for self-dealing of all kinds (Phillips, Freeman, & Wicks, 2003).

The second mention occurs at the very end of the book; here Freeman lays out four areas for future investigation. His last point is the provocative and lasting one. He asks, "Can the notion that managers bear a fiduciary relationship to stockholders or the owners of the firm, be replaced by a concept of management whereby they *must* act in the interests of the stakeholders of the organization?" (p. 249). That is an enormously complicated and provocative question—one that challenges the theory of the firm and our attendant legal doctrine down to its very roots. Curiously, it is also a question that comes out of the blue. There is little in the book that prepares a reader for these closing words. Nevertheless, I dare say that the book is known more for the promise that orients the book's penultimate paragraph than it is for much of what it says in the previous 248 pages. Consider how this legacy is revealed in two contemporary books on stakeholder theory.

REDEFINING THE CORPORATION: STAKEHOLDER MANAGEMENT AND ORGANIZATIONAL WEALTH (2002)

The Post, Preston, and Sachs' (2002) book starts off with a nod to Freeman's closing thought but quickly shifts gears. The authors write, "The corporation cannot—and should not—survive if it does not take responsibility for the welfare of all its constituents, and for the well-being of the larger society in which it operates" (pp. 16–17). This stark and even paternalistic stance does not figure prominently in the rest of the book. Rather, the spirit of the book is very similar to the "business-first" sentiment that orients the Freeman book. Yet it does differ in some very important ways. Let's consider the similarities and differences before we take a look at the puzzles they leave us.

The authors are very explicit about the purpose of the firm. Two early declarative sentences make and emphasize the point: (1) "The purpose of the business enterprise is to create wealth" (p. 8), and (2) "The purpose of the corporation is to create wealth" (p. 35). While they mention business survival on page 16, their book is not at all oriented by Freeman's alarm about the viability of the firm. Post et al. do not question the future of the firm; instead, they are very concerned about the firm's ability to continue to prosper in the contemporary business environment. Like Freeman, they believe that the path to wealth creation follows Freeman's stakeholder-serving orientation. The motives, however, are much more firm centric than the sentence spanning pages 16 and 17 suggests. They use their very well-documented case studies of Cummins, Motorola, and Shell to make

their broad point in at least three different ways. They try to make the positive case: "Mutually beneficial stakeholder relationships can enhance the wealth-creating capacity of the corporation" (p. 36). They also try to build the negative case: "The failure to establish and maintain productive relationships with all of the firm's stakeholders is a failure to effectively manage the organization's capacity to generate future wealth" (p. 53). And they try to craft a process logic that links stakeholder management and wealth: "Proactive stakeholder strategies can help firms avoid, reduce, and control costs over the long term" (p. 255). This last focus on cost control is essential to understanding the power behind their argument. Let's compare a few more aspects of this work to Freeman's ideas to see how stakeholder thinking has evolved over the years and then take a clear look at the implications of this cost focus—implications that leave us with some issues to ponder.

Freeman orients his book by an appraisal of the changing nature of business competition. Post et al. look externally to motivate their argument as well, but they draw a very different conclusion. The authors talk about the "challenge of globalization" (p. 76). They call attention to the "advances in communications and transportation technology" and to the "vast increase in the volume and speed of international financial flows," but rather than pose this as a profoundly new business challenge in the way Freeman did eighteen years earlier, they recognize that today's executives generally know what globalization means for their discrete business activities. Instead, they focus on the social and political implications of this global interdependence. They argue that

> the scale, scope, and interdependence of modern economic activity generate new consequences, uncertainties, and risks—social, technological, ecological, and ethical—that challenge conventional concepts about the business corporation and stimulate dialogue about the responsibility and behavior of the corporation at both the societal (macro) and firm (micro) level (p. 229).

Combine global interdependence with the abundance of information about any firm's activities on the internet (and the attendant ability of agitated stakeholders to organize themselves on the internet) and you have a picture of firms that simply must attend to their social, technological, ecological, and ethical footprint on the world (p. 251). A firm's global reach exposes it to critics of all kinds—critics who may be able to organize themselves as never before. This is how Post et al. see the challenge of the new economy; this is the challenge that motivates their book.

Freeman considered business enterprises to be quite fragile in 1984. The firms that Post et al. observe are anything but. Indeed, contemporary firms' size and power give the authors pause: "The size, bargaining power, and impact of major multinational firms, both individually and collectively, strongly suggest the need for a redefinition of their political and legal status, and for the scope of their managerial responsibilities" (p. 11). While Freeman urges his executive readers to pay attention to the external world if they are to survive, Post et al. urge their executive readers to pay attention to the external world if they hope to be able to pursue their business interests in peace. The idea of a "license to operate" is these authors' major contribution to the stakeholder conversation:

> With respect to individuals and groups involuntarily impacted by corporate activity, in particular those subject to pollution, congestion, unwelcome cultural influences, or the like, the critical management goals have to be *avoidance of harm, reduction of risk, and/or the creation of offsetting benefits,* so that the continued operation of the individual enterprise—its "license to operate"—remains acceptable to all parties (p. 21).

They go on to say that "the 'license to operate' from the firm's host environment is as important as its financial resources" (p. 55). And, finally, in the book's very last paragraph, the authors underscore the point that "the corporation must earn its 'license to operate,' both locally and globally, by demonstrating its respect for people and its contribution to building a better world" (p. 256). Build a better world or else.

Post et al. argue that the firm's humanistic commitments provide the "social glue" to hold the organization's parts together and the "social grease" to keep them operating smoothly (p. 83). This "glue and grease" imagery perfectly captures much of their argument. Although not referenced in this book, Bartel's (2001) examination of the positive internal organization effects of external corporate volunteerism programs captures the "glue" argument quite well. Post et al. are more concerned with the "grease" perspec-

tive, however. Their focus on organizational wealth, while expansively defined to include internal capabilities (p. 36), leads them to consider the more strategic aspects of stakeholder management. For example, in their three case studies, they consider such issues as Cummins' international market entry strategy and its response to its near takeover by Hanson PLC, Motorola's handling of the semiconductor "chip wars" with Japan and market entry in China, and Shell's handling of the controversies over the disposal of the Brent Spar floating oil terminal in the North Sea and the murder of Nigerian social activist Ken Saro-Wiwa. In the end, they are intrigued with the idea of "ethical advantage."

The authors first mention the idea of an "ethical advantage" (p. 173) when they consider how to minimize the costs of doing business in the sometimes corrupt Chinese business environment. They then offer Motorola and its ethical commitments as a role model to others. They twice celebrate the fact that Motorola believes its ethical values and commitments give it an advantage over competitors (pp. 189, 211–213). This is all a part of their belief that a stakeholder view of management, with its focus on the social and political aspects of the firm's business environment, supplements our more standard resource-based view and industry structure view of wealth creation (pp. 238–244). Indeed, Post et al. even go so far as to argue that "the stakeholder view integrates both of these perspectives, and adds the social-political environment as a critical third dimension" (p. 255). They overreach to assert that their stakeholder view integrates these other theoretical perspectives (they do not offer a nuanced theoretical discussion of this point), but their ambition is clear. Again, their "core concept" is that "mutually beneficial stakeholder relationships can enhance the wealth-creating capacity of the corporation" (p. 36).

Notwithstanding their observation that "stakeholder-oriented firms often seem to be motivated by normative considerations that underlie a pervasive organizational commitment to humanistic values for their own sake" (p. 79), Post et al.'s basic argument is fully at odds with this observation (unless one really emphasizes the word "seem"). The authors argue that today's large and powerful firms embrace a stakeholder view of management to assure themselves the degrees of freedom they need to do business—they do not serve their stakeholders for those stakeholders' own sake. Consider Kofi Annan's plea. Firms will invest in our social life to the extent that it buys them a "license to operate." This investment's return is avoiding the costs agitated stakeholders will bring to the firms. Indeed, minimizing such costs gives firms an ethical advantage over their less prescient competitors.

While Post et al. might point to the quote on p. 79 and say yes, firms should invest in the fight against AIDS for purely humanitarian reasons, the body of the text suggests that Post et al. would recommend against such an investment. These AIDS victims do not seem to impinge on most firms' ability to do business. Indeed, I suspect that they would counsel a firm to make such an investment only if it has a clear business reason to do so (Rosen et al., 2003) or if a group of activists somehow manages to pressure the firm to invest in the AIDS fight as a condition for doing business in some market—that is, if such an investment buys the firm its operator's license.

The authors' broad point is that a firm's ultimate viability is rooted in the trust and goodwill of the larger community in which it sits. This is an uplifting view of business. This uplifting abstraction, however, belies a more calculating side to legitimacy building. It costs money to build goodwill. Managing stakeholder relationships in the service of organizational wealth is much trickier than it may seem at first blush. Tying stakeholder management to a cost-focused business strategy raises some very interesting issues. While Post et al. do not raise them explicitly, these issues linger in and among the pages of the book. Fundamentally, the authors argue that buying a license to operate is akin to buying insurance.

Post et al. review Shell's new stakeholder-oriented management culture in China and observe that it is "an effort to build a broad base of social acceptance in China as insurance against future changes in government policy and the emergence of competitors, both domestic and foreign" (p. 195). They illustrate the value of such insurance when they consider Shell's recent experience in Australia. They point out that Shell's investment in its stakeholder management practices paid great dividends: "Benefits were realized when the company's commu-

nity relationships enabled it to successfully clean up a serious oil spill in Sydney Harbor with a minimum of public outrage" (p. 279). Indeed, they observe that foreign firms in China "make a serious effort to show a philanthropic face to government authorities and the general public" (p. 170). The authors tell us that firms invest in a society's social life to construct a philanthropic face and, in so doing, buy insurance.

Firms reach out with philanthropy to claimants who might find reason to protest their activities one day. From the point of view of the firm, the philanthropic investment functions just like insurance. Executives hope to buy stakeholder silence after a business transgression. I am curious. Are the recipients of this targeted philanthropy equally well served by the corporations' social investment strategies? We really have no idea (Margolis & Walsh, 2003). Moreover, do stakeholders view philanthropy in such a calculated fashion? Do they view such investments as a kind of "hush money"? If so, does this philanthropy properly compensate them for the harm they endure? If a prior record of "doing good" by claimants does satisfactorily compensate them when they are harmed by a firm, we need to know how claimants set their philanthropic aspirations. Post et al. give us no answer to these questions other than to suggest that a "conspicuous commitment" (p. 196) is warranted.

The authors also point to limits on just how conspicuous these investments can be. Firms carefully manage their profile to suppress their stakeholders' appetites for more investment. They do not want to appear to be too successful for fear that they will be "actively approached for assessments, fees, and philanthropic contributions" (p. 178). There are limits to philanthropy. Indeed, at some point, this investment strategy calls for substitutes. The authors tell a story about the Miller family. The Millers were 5 percent owners of Cummins Engine in 1989. They preferred to pay greenmail to Hanson PLC rather than invest in Columbus, Indiana, after a possible ownership and control change. Post et al. call this "preventive philanthropy" (p. 135). The authors conclude, "They reasoned that the purchase premium of the Hanson stock would be less than the charitable expenses that they would likely feel obliged to make in the event of a Hanson takeover" (p. 135).

Post et al. should be commended for bringing the idea of legitimacy front and center into the discussion of stakeholder management. Future work will consider how such legitimacy is built and maintained. Post et al. link stakeholder management decisions to very deliberate risk and reward calculations; if they are correct, and it is not clear just how robust this insurance phenomenon really is, then we need to know much more about how the various protagonists do their actuarial work.

Redefining the Corporation leaves me with one final question. To whom should a firm show its philanthropic face? Of course, this question of stakeholder identification has bedeviled stakeholder theorists for years. Mitchell, Agle, and Wood (1997), for example, reviewed twenty-seven different approaches to identifying a stakeholder before offering us their view. Aware of these controversies, Post et al. take issue with Freeman's (1984) expansive stakeholder definition noted above—a definition they dismiss as a "loose statement" (p. 18). Noting that this definition would include a consideration of a firm's competitors, the authors argue that we need a definition with a much narrower scope. They narrow the scope to those directly implicated in the firm's wealth-creating capability and they offer us the following definition:

> The stakeholders in a corporation are the individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth creating capacity and activities, and that are therefore its potential beneficiaries and/or risk bearers (p. 19).

The problem with this definition is that it reflects the status quo; it does not account for creative ways to show a "philanthropic face." At first blush, the authors' definition seems to be more restrictive than Freeman's definition, but it may not be at all. For example, imagine that a firm decides it will buy its license to operate by investing in a social initiative that is quite removed from its wealth-creating capabilities. The firm's leaders might reason that the social investment must be far removed from its business activity in order to establish a seemingly altruistic philanthropic veneer. Indeed, a firm may decide to invest in Kofi Annan's global AIDS initiative. Following Freeman's logic, the AIDS victims—people who heretofore bore no relationship to a firm's wealth-creating capacity—will be affected by the activities of the cor-

poration and so become stakeholders. The firm may or may not be able to directly capitalize on this seeming altruism (Adkins, 1999), but we know that if a firm ever rescinded its commitment to these victims, the ensuring publicity would almost certainly affect the firm's license to operate and therefore impair its wealth-creating capabilities. Thus, a firm can easily turn a distal Freeman stakeholder into a proximate (and even lifelong) Post et al. stakeholder. We still need to come to terms with just who the firm's stakeholders are and what the firm owes them. In the end, this may be more a question of ethics than business. Indeed, this is the very challenge that Phillips (2003) confronts.

STAKEHOLDER THEORY AND ORGANIZATIONAL ETHICS (2003)

Phillips tackles the issue of stakeholder identification and obligation in a very scholarly way. His erudite book is not for the average manager. He lays out his purpose in the preface: "This book attempts to combine stakeholder theory and the moral and political philosophy of John Rawls into a single theory of organizational ethics" (p. ix). *Stakeholder Theory and Organizational Ethics* is a theoretical attempt to come to grips with some very fundamental questions in stakeholder management.

Phillips begins the book with a stimulus that is reminiscent of the one Post et al. use to motivate their book: "Business organizations are among the most powerful social entities on earth" (p. 1). But rather than look at these powerful firms' footprints and the attendant need to mollify their stakeholders, Phillips draws a different conclusion. He argues that "organizations in the early twenty-first century are confronted with a unique set of moral issues requiring moral theory explicitly tailored to this set of issues" (p. 5). He goes on to say that "stakeholder theory is a strong candidate of such a theory of organizational ethics" (p. 5). What are those moral issues? Fundamentally, Phillips argues that the firm has an obligation to its stakeholders: "Stakeholder status as here conceived indicates the presence of an *additional* obligation over and above that due others simply by virtue of being human" (p. 83). He underscores this very same point about obligations due—due beyond whatever people's humanity grants them—again on pages 94 and 116–118.

Phillips is extremely clear and even provocative when he answers the stakeholder identification question. To me, it is his major contribution. He is less clear, however, when he attempts to specify the form these obligations take. Let's consider both issues. In so doing, we can appraise the current state of the theory.

As we have seen, it is not easy to define a firm's stakeholders. Phillips' critique is unambiguous. He states his case succinctly in two places, seventy pages apart: (1) "stakeholder theory as currently discussed has no means of determining who are and who are not stakeholders in a moral sense" (p. 82); (2) "neither the scholar nor the manager has a method for determining to whom stakeholder obligations are due" (p. 152). He is aware of Freeman's perhaps overly broad-based definition: "If everyone is a stakeholder of everyone else, little value is added by the theory" (p. 121).[1] He is also aware of the Post et al. critique and the need to narrow the definition to exclude competitors.

Nevertheless, Phillips is quick to point out that while a firm is not managed for the benefit of its competitors, competitors surely can influence a firm. To ignore them is lunacy: "If stakeholder theory is to be a theory of *strategic management and ethics,* then competitors cannot lie outside the theory" (p. 122). But, then again, the fact that someone can influence you does not entitle that individual to a moral obligation. Phillips colorfully draws an analogy to criminals: "The mere ability to affect the organization creates no more obligation on the part of the organization and its managers than does a thug's ability to beat me up create a moral obligation between us" (p. 153). Unflinchingly, he orders this very chaotic world. His definition of stakeholder identity is very clear.

He argues that there are two kinds of stakeholders in the world: normative stakeholders and derivative stakeholders.

> Normative stakeholders, then, are those stakeholders to whom the organization has a moral obligation, an obligation of stakeholder fairness, over and above that due other social actors by virtue of their being human. These groups are the

[1] Freeman himself came to agree with this critique: "When everyone in the world is a stakeholder of everyone else, the term adds little if any value and the critics' charge of conceptual emptiness becomes a rather convincing one" (Phillips et al., 2003: 492).

> answer to the seminal stakeholder question, For whose benefit . . . should the firm be managed? (p. 124).

These stakeholders may include communities, customers, employees, financiers, and suppliers (p. 127).

> Derivatively legitimate stakeholders are those groups whose actions and claims must be accounted for by managers due to their potential effects upon the normative stakeholders. Managerial attention to these groups is legitimate, but this legitimacy is derived from their ability to affect the organization and its normative stakeholders; consideration of these groups is justifiably limited to this ability to affect the organization and its normative stakeholders (p. 127).

These stakeholders may include activists, competitors, and the media (p. 127).

These identities and the distinction that separates them make good sense. Nevertheless, we need to recognize that they are limiting. Let's consider Kofi Annan's appeal again. If we asked Phillips how a firm should respond to the Secretary General's appeal to help AIDS victims, I believe that Phillips would join Freeman and Post et al. in saying no. I also believe that Phillips would feel much less conflict in saying so. Let me explain.

Phillips goes out on a limb and tackles the very difficult problem of identifying nonstakeholders. I admire his courage. He is as clear here as he is when he identifies stakeholders. I imagine that his view will garner a great deal of attention. It is provocative.

> People cannot be deemed stakeholders simply because they have problems. Stakeholder theory is not intended as a comprehensive moral theory. It merely describes the obligations that result from a special organizational relationship. Those outside these special relations should look elsewhere for relief (p. 142).

This excerpt provides a direct answer to Kofi Annan. These sentences may sound harsh to those familiar with writing in this area. It is important to realize that I did not pluck them out of context. Phillips writes earlier of his admiration for a Max Clarkson quotation: "Stakeholder theory should not be used to weave a basket big enough to hold the world's misery" (p. 125).[2] He also observes that

> managers are justified in ignoring or attempting to undermine certain powerless, nonlegitimate groups, but may not justifiably ignore or attempt to undermine share owners; and this is not simply due to asymmetries of power, but to the moral legitimacy of the latter and the absence of same by the former (p. 134).

Shareholders have a moral legitimacy that powerless, nonlegitimate groups do not. Moreover, Phillips' theory of organizational ethics suggests that managers can even work to undermine these powerless groups. These are strong words. Phillips has done us all a favor by drawing such a clear line in the sand.

Now that we know who is and is not a stakeholder, we need to consider how to treat them. What is owed them? How much is owed them? How should a firm deliver on its obligations? These are important questions too. Perhaps I was spoiled by Phillips' contribution to the stakeholder identity debate. I was hoping that he would answer these questions as cogently as he does the others. Unfortunately, he only begins to frame their answers. What is owed a stakeholder? He says that stakeholders have a "claim to voice in decision making and to the outcomes of organizational activities" (p. 132). If the organization accepts benefits from stakeholder groups, then it incurs an obligation "to attend to the well-being of these stakeholders" (p. 158). Some may want a claim on the value produced by the firm, but some may want more: "Those who desire a voice should have it" (p. 159). How do we know what they want? Phillips assails managers for sitting in their offices, vainly trying to divine what stakeholders want. The key is to talk to them. Echoing Freeman, he argues that "stakeholder interaction and discourse . . . is the responsibility of managers at all levels throughout the organization" (p. 159).

Once we know who a firm's stakeholders are and that they are obligated both a say in the running of the organization (voice) and a claim to the outputs of the firm (share), the crucial question becomes "How much?" How much influence and outputs do they deserve? We discover that while Phillips' principle is clear, his specifics are vague. He argues for "a principle of stakeholder fairness based on Rawls' principle of fair play" (p. 85). A key is that the "obligations of fair play would be reciprocal" (p. 92). He nicely summarizes his point: "Voice and share—and therefore a sort of priority—should be based

[2] He relied on this same quotation to make the identical point in another publication that year (see Phillips, 2003b: 30–31).

on contribution to the organization. The more a stakeholder group contributes to the organization, the greater its voice and share of value created should be" (p. 162). The details about how to assess and weigh these contributions are left for another time.

One can only imagine how difficult it will be to compare the new assistant brand manager's contribution to the firm with the contribution made by the janitor who has cleaned the offices of these new young managers for fifteen years, with the contributions made by second- or third-tier suppliers, few of whom anyone in the firm has met, with the pension fund that takes an ownership position in the firm for a month, with the community that gave the firm a huge tax break to locate a manufacturing facility in its town. The list goes on. Phillips admits that "evaluating the relative contributions . . . bears no easy prescription" (p. 162).

We need a practice-based sequel to this theoretical book. We need to know how to live the principles of stakeholder fairness, obligation, and reciprocity, as well as how to manage the line between those who can claim a legitimate seat at the table of power with others who want to sit there. Right now, Phillips concludes that "managing for stakeholders, indeed all top-level strategic management, is organic in nature. Management is more art than science" (p. 166). He calls this artwork "pragmatic experimentalism." At the end of the day, Phillips' analytical clarity and practical ambiguity combine to leave us with an aspiration that is more prayer than axiom. He concludes his book by saying that "using stakeholder theory as a framework for organizational administration keeps the morality of management foremost in our minds as we seek to continually improve our methods for creating value."

STAKEHOLDER MANAGEMENT: ITS CONTRIBUTIONS AND BOUNDARIES

Kofi Annan has offered us a crucial challenge. It is not every day that the United Nations reaches out to the United States' business community for help. With so many lives and livelihoods at stake, we need to get our answer right. The problem for Kofi Annan is that the neoclassical theory of the firm asks us to look to government for the solution to this problem.[3] Neoclassical theorists will see direct corporate investments in public health as an undisciplined double tax on the firm (Friedman, 1970). In addition, regardless of how well-intentioned a firm may be, many worry that our social life will be degraded if it becomes encapsulated within the profit-making enterprise. Levitt, for example, did not mince his words: "All these well-intentioned but insidious contrivances are greasing the rails for our collective descent into social order that would be as repugnant to the corporations themselves as to their critics" (1958: 912). We need to look somewhere else if we hope to find a theoretical justification for such an AIDS investment. Stakeholder theory is our most likely first choice.

My goal has been to use Kofi Annan's extraordinary challenge as a way to take stock of the theory of stakeholder management. Obviously, there is more to the theory than what we read in these three books. Mine has been something of a stylized exercise. Most everyone would agree that it is fair to begin with Freeman's (1984) seminal book. The agreement may end there. Using Post, Preston, and Sachs (2002) and Phillips (2003) to represent the evolution of thought in this area may give some pause. People may wish for a comprehensive literature review instead.

Unfortunately, the stakeholder arena is filled with contest and controversy. The three very different perspectives we have seen here reflect variegated opinion in the field. The world of stakeholder management is filled with misunderstanding, contest, and unfinished business of all kinds (Phillips, 2003a; Phillips et al., 2003). Indeed, many people have a difficult time com-

[3] Annan looks to corporations to supplement the meager resources that many governments have on hand to fight the disease. The irony is that many of the corporations that Annan courts may be lobbying governments to reduce their tax burdens—the taxes that might just pay for AIDS treatment and prevention programs. Robert Reich, a former U.S. Secretary of Labor, pointed out this problem a few years ago: "The modern corporation cannot simultaneously claim, as a matter of public morality and public policy, that its only legitimate societal mission is to maximize shareholder returns, while at the same time actively seek to influence social policies intended to achieve all the other things a society may wish to do" (1998: 16). He concludes that "the meta-social responsibility of the corporation, then, is to respect the political process by staying out of it" (1998: 16).

ing to terms with just what the theory says and does not say. Some criticisms are relatively benign: "There is relatively little agreement on the scope of the theory" (Harrison & Freeman, 1999: 483). Others are more negative: "The stakeholder model leaves theory largely implicit" (Jones, 1995: 405) or "The stakeholder concept . . . is relatively vague and, thus, gives little direction to either the study or the practice of management" (Jones & Wicks, 1999: 206). Others suggest that it is not a theory at all: "We suggest that 'stakeholder theory' is best characterized as the stakeholder research tradition" (Trevino & Weaver, 1999: 224). And still others almost warn us off from working in this area, referring to the "stakeholder minefields" (Mitchell et al., 1997: 862) or to "the feeble state of something we are labeling stakeholder theory in absentia" (Gioia, 1999: 229). Kofi Annan's appeal raises the question, "Internecine squabbles notwithstanding, what has twenty years of thinking about stakeholder management yielded?" Post, Preston, Sachs, and Phillips are all extremely well schooled in stakeholder management research and thinking. It is quite reasonable to look to them for some conceptual closure in a time of need. What have we learned from this exercise?

Surprisingly, we've learned that there may be more agreement than not in this area. My reading of this work tells me that Kofi Annan should not look to stakeholder theory to either guide or justify business support for AIDS initiatives. Annan (2001) argues that it is in the firm's economic interest to join the fight against AIDS. Indeed, he speaks of "a happy convergence between what your shareholders pay you for, and what is best for millions of people the world over." Nevertheless, I do not see a rationale in any of these stakeholder books for firms to define AIDS' victims as stakeholders worthy of their business attention and investment. Yes, I can imagine extending the Post et al. (2002) logic to embrace cause-related marketing techniques (Adkins, 1999) and turn AIDS patients into a stakeholder group that, if tended, might contribute to a firm's bottom line, if not its license to operate. That is a stretch, however. Annan's society-centric call for help runs smack into the business-centric reasoning that orients our ideas of stakeholder management. In short, we've discovered one of the theory's boundary conditions. More than a few readers will be surprised to learn that there is no room in stakeholder theory to redress the most devastating health scourge the world has ever known. I was. It may be that the leading contender to challenge neoclassical thinking is not the contender so many think it is.[4]

This is not to say that business should turn away from AIDS victims. There may be alternative perspectives that can support such an investment. There are two ways that business might help. The first is the obvious one. Businesses are allowed, if not encouraged, to donate to charity. In fact, Freeman developed his stakeholder ideas just after Congress passed the Economic Recovery Act. Moving from 5 to 10 percent, Congress raised the allowable corporate tax deduction for charitable contributions in 1981 (Mills & Gardner, 1984). Business does not need a "business case" to legitimate its commitment to fight AIDS. A charitable case will do.[5]

The second approach requires some imagination; moreover, it is not for everyone. The unstated assumption here is that firms who have no business in the world of health care will step up to fight AIDS (or contribute to any societal interest that exceeds the reach of its business model). Rather than ask corporations to fight social maladies of all kinds in such an extramural fashion, we might do well to encourage visionary entrepreneurs to develop business models that directly combat these social maladies. Prahalad and Hart (2002), for example, argue that we should take the needs of the poorest among us as an opportunity to challenge our standard operating procedures, innovate, and so use business itself to solve our social problems. Perhaps some yet-to-be envisioned company can turn a profit by preventing and treating AIDS. Business itself may provide a direct

[4] Indeed, Phillips et al. (2003) argue that it is time to turn away from what they call the "tiresome tirade" of arguments about the "stockholders versus stakeholders" duality. That said, two of these three authors recently challenged the centrality of the shareholder wealth maximization idea in a terrific debate about the objectives of the corporation (Freeman, Wicks, & Parmar, 2004; Sundaram & Inkpen, 2004a,b).

[5] How such investments sit astride stakeholder theory is an open question. Phillips et al. note that "philanthropy would not and need not be justified by reference to a theory of the obligatory such as stakeholder theory. Rather, charitable giving stands above and outside the description of what is required of organizations" (2003: 494). Of course, Post et al., noting that firms work to create a legitimacy-enhancing "philanthropic face," do find a way to link stakeholder management and philanthropy.

answer to many of our social problems. Of course, Levitt's (1958) critique still stands. We can explore the limits of the corporation's role in our lives at some other time.

I know of no fully developed theory of the firm that might allow for the kinds of corporate AIDS contributions that Kofi Annan envisions. This kind of work has not risen to the top of our field's agenda (Walsh et al., 2003). Nevertheless, we can turn to philosophy for ideas to support such contributions. Focusing on questions of justice, Hsieh (2004) argues that members of well-ordered societies have a duty of assistance to help those in burdened societies if they benefit from their work in those societies. Therefore, companies with operations in Africa, China, India, and Russia can reasonably be expected to contribute to the fight against AIDS.

But what of those companies who do not have direct dealings with societies that suffer mightily from AIDS? Herman's (2001) ideas speak to them. She develops the idea of the duty of beneficence. Her argument is that duties of beneficence—obligations to help others—require us to act in certain circumstances, especially to help those in dire need. Unfortunately, Herman has not yet applied her ideas to questions of corporate governance. Nevertheless, the mere fact that a set of resources happens to be housed within a social institution known as a corporation is unlikely to freeze the duty of beneficence at the door. While the ideas in stakeholder management may not guide or legitimate Annan's AIDS requests, other ideas might be up to the challenge. I leave it to Hsieh and Herman to develop their points of view. This essay is about the contributions and limitations of stakeholder management and not the place of the corporation in society, so broadly considered.

At its best, the stakeholder management tradition reminds us that business is a fundamentally human enterprise. The ideas of stakeholder management reside comfortably alongside the neoclassical theory of the firm. Indeed, Freeman and Phillips conclude that "first and foremost, stakeholder theory is about business and capitalism" (2002: 340). From Freeman on, writers in this tradition remind us that we are all well served if these capitalist business leaders honor the dignity and humanity of those who both contribute to the firm's activities and benefit from them. Freeman et al. recently articulated what they call the core of stakeholder management, capturing the point very nicely: "Managers must develop relationships, inspire their stakeholders, and create communities where everyone strives to give their best to deliver the value the firm promises" (2004: 364). Neoclassical economists sometimes overlook the importance of the verb "to manage," along with such attendant verbs as "to develop," "to inspire," and "to create." Stakeholder theory brings these ideas and practices to the fore.

Fifteen years after shining a light on the role that stakeholders play in a firm's survival, Freeman (1999) knew that his stakeholder idea offered the promise of more than just survival. He argued that we would do well to use the idea to compile hundreds of narratives in a broad conversation about how to understand organizations and live better. Post et al.'s (2002) compilation of case studies begins to do just that. We need to recognize, however, that the stakeholder management ideas complement the neoclassical theory of the firm; they do not challenge it. We now know, for example, that stakeholder theory is not very useful to the managers who will answer Kofi Annan's call for help. If we want to browbeat infidels and supplant the stockholder theory of the firm, then we must look elsewhere for relief.

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Back to the Drawing Board: Designing Corporate Boards for a Complex World, by Colin Carter and Jay Lorsch. Boston: Harvard Business School Press, 2004.

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For more than seventy years, but first truly crystalized in the debates between Berle (1931, 1932) and Dodd (1932), corporate governance has enjoyed considerable attention from a succession of legal, business, political, and organizational scholars and practitioners. Much of this attention has focused on debating the rights and wrongs of the purpose of the corporation, with a usual and emphatic insistence that the "wrongdoings" can only be addressed if a particular theoretical model holds sway in underpinning the practice of governance. However, the issue for practitioners and regulators is that both of the "popular" models (shareholder or stakeholder) and their variants do not fully explain what happens in the complex practice of corporate governance, and both are naive in expectations of directors' behaviors. What is needed is theory that informs better (not best) practice, but that theory needs to come from a real-world un-

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